Friday, April 23, 2010

Good Afternoon. I would like to thank Octavia Rainey, the City of Raleigh Fair Housing Hearing Board, and each of you here today who serve others.

Preventing more home foreclosures is the single biggest challenge we face in getting America's economy back on track, and our failure to take effective actions to manage the avalanche of home foreclosures is one of the great public policy failings of our time.

In 2009, the U.S. experienced a record 3.9 million foreclosure filings. That number will rise to 4.5 million filings this year, and by the end of 2010, experts think it is likely that fully three million will see their homes repossessed. About one mortgage-holder in four is "underwater"—that is, owes more on their home than their home is worth—and one in seven is behind on their mortgage.

Until the government slows foreclosures, any actions taken to correct the country's economic slide will be of limited value. Yet foreclosures continue virtually unabated.

Lenders can foreclose on unpaid mortgages even if the borrower has sold the home, so underwater borrowers are stuck: they cannot refinance or sell their home, even to take a new job in another town.

Vacant foreclosed homes are stigmatizing neighborhoods and pushing down home values, and priced-to-sell foreclosed homes are flooding real estate markets around the country. The retreat in home prices has become a rout, and foreclosures have become an epidemic.

Foreclosure rates in North Carolina are lower than in places like California and Nevada, and home values here have not declined nearly as much. But North Carolina now has an unemployment rate of 11.1 percent, so you can count on more and more families here facing foreclosure.

We're also fortunate in that North Carolina has had great leadership on the foreclosure problem at the state level. For instance, our state's Home Protection Program helps workers statewide who lose their jobs as the result of changing economic conditions avoid foreclosure through zero-interest loans and temporary stays.

I have met with housing counselors and others on the front lines of the foreclosure crisis in Raleigh, including legal aid lawyers. North Carolina allows housing counselors to take an important step further than federal housing counseling. The financial industry in Washington gave us permission to fund counselors to approach mortgage holders as a supplicant, to say "please, please, please modify this mortgage so the homeowner has a chance to save the home." In North Carolina, counselors can say "please, please, please modify this mortgage, and we've reviewed the mortgage documents and found that the mortgage violated the law, so if you don't modify voluntarily we're going to sue."

Otherwise known as a "demand letter."

The North Carolina approach has proven more effective than the federal approach. Voluntary mortgage modifications by lenders based upon supplication alone are not even touching the foreclosure problem.

Dignity is important, but there is much more at stake than not requiring working and middle class homeowners to approach the financial industry on bended knee: Families that lose their homes to foreclosure lose their membership in the middle class, probably forever, and as a result of the foreclosure crisis, almost all middle-class homeowners are seeing their life's savings evaporate with the collapse of their home's value.

Today, I'm going to talk a little bit about how the foreclosure problem came about and became so serious, as well as what we can do now to get a better handle on it.

How we got here

- The leaders of the financial industry and their trade associations in Washington blame the financial crisis on a weird, unpredictable combination of events, a "perfect storm." Economists mock the explanation as "hoocoodanode."

- I don't claim to have seen the collapse of the world's financial markets coming, but I knew that the mortgages that have proven "toxic" for the financial industry were toxic for homeowners.

- The Financial Services Committee is reviewing the existing financial regulatory structure to address "systemic risk," to protect the financial industry from getting itself in such desperate trouble again. But we need to do more than prevent the Masters of the Universe from running with scissors in the future. We need to reform the consumer lending practices that have now trapped millions of working and middle-class families in hopeless debt through mortgages, credit cards, overdraft fees, payday lending and on and on, while the financial industry profits metastasized to more than 40 percent of all corporate profits just a couple of years ago.

In order to keep a crisis like this from happening again, and in order to give consumers and investors more certainty, I spent most of the past year working on and helping push through The Wall Street Reform and Consumer Protection Act in the House Financial Services Committee ---which has passed the House---and is this week being debated in the Senate.

For years the privileged elite in government and big business ignored growing risks in the financial markets. Wall Street investment houses and big banks exploited legal loopholes to take advantage of American families and small businesses. They argued that any regulation of Wall Street would stifle innovation and limit credit.

The failure to regulate financial markets and police wrongdoing allowed Wall Street and the big banks to gamble with our money, creating a "casino economy." When their bets won, they made vulgar profits. And when their bets lost, investors and taxpayers took the hit. That is the kind of "innovation" I have fought since I was first elected to Congress. Their practices threatened our future, our savings, and the American Dream of homeownership. The result for them was instant profits, but for most of us the result was the worst financial crisis since the Great Depression.

The current financial crisis has revealed serious weaknesses in our system for oversight of financial institutions.

From families losing their homes because they were victims of a predatory mortgage loan to those who live paycheck to paycheck further burdened by abusive credit card and overdraft fees – we must have an agency dedicated to protecting consumers.

To maximize profits, banks have adopted a number of practices that are questionable at best, if not downright anti-consumer.

The Wall Street Reform and Consumer Protection Act will start to restore responsibility and accountability to the financial industry through tough rules and strong regulation of risky practices:

It will ensure that the credit cards you use and the mortgage you sign are fair, transparent and understandable by creating a new watchdog for consumers, the Consumer Financial Protection Agency (CFPA). The CFPA will be a cop on the Wall Street beat to protect consumers. Consumers should not have to worry that legalese in the fine print contains hidden fees and traps to cheat them out of their financial security.It will prevent Wall Street from gambling with your retirement savings by protecting 401(k)s and pensions.It will ensure that taxpayers will never again have to bail out Wall Street banks by putting an end to "too big to fail" firms and preventing risky behavior from threatening to bring down the entire economy.And, it will rein in predatory and abusive lending practices so that lenders can't put you or your neighbor into an unaffordable or confusing loan.

Reps Mel Watt (D-NC) and I wrote and championed the Mortgage Reform and Anti-Predatory Lending legislation bill that passed the House earlier this year and is also incorporated in the Wall Street Reform bill. We first introduced the bill almost six years ago, and have fought for it ever since. The legislation outlaws many of the outrageous practices that marked the subprime lending boom, and it requires that mortgage lenders only offer loans that benefit consumers. It would establish a simple standard for all home loans: lenders must ensure that borrowers have the ability to pay their mortgage.

Like you, I'm disgusted by the so-called Washington bailouts for businesses and executives whose practices led to their own demise.

But, I voted to support Stabilization and Recovery packages to help pull us back from the brink and avoid a collapse of our economy, caused in part, by some of the reckless policies of the previous administration. It was the only way to bring stability to the markets and it was a compromise I was willing to make to help protect working and middle-class families from the crisis on Wall Street. I will continue to support efforts to get our credit markets working again, but we must not forget about helping folks on Main Street along the way and support efforts to make sure that taxpayers get every dime back.

We all know that fair housing centers funded by HUD are the frontline in the effort to resolve housing discrimination.

The American Recovery and Reinvestment Act (or stimulus package) includes $13.61 billion for projects and programs administered by the Department of Housing and Urban Development - nearly 75 percent of the funding was allocated to state and local recipients only eight days after President Obama signed the Act into law. The Recovery investments in HUD programs will generate tens of thousands of jobs, modernize homes to make them energy efficient, and help the families and communities hardest hit by the economic crisis. Almost all of the remaining 25 percent of funds have been awarded via competition since that time.